

**UNC Workgroup 0483 Minutes**  
**Performance Assurance Framework Incentive Regime**  
**Tuesday 24 February 2015**  
**ENA, 52 Horseferry Road, London SW1P 2AF**

**Attendees**

Bob Fletcher Chair)	(BF)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Andrew Margan	(AM)	British Gas
Angela Love	(AL)	ScottishPower
Chris Warner	(CW)	National Grid Distribution
Colette Baldwin	(CB)	E.ON
Edward Hunter	(EH)	RWE npower
Emma Lyndon	(EL)	Xoserve
Jonathan Kiddle	(JK)	EDF Energy
Lorna Lewin	(LL)	DONG Energy
Mark Jones	(MJ)	SSE
Rachel Hinsley	(RH)	Xoserve

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0483/240215>

The Workgroup Report is due to be presented at the UNC Modification Panel by 16 April 2015.

**1.0 Review of Minutes and Actions**

**1.1 Minutes**

The minutes of the previous meeting (13 January 2015) were approved.

**1.2 Actions**

**0483 1201:** National Grid Distribution and Xoserve (EL) to look to provide a cost estimate in the form of a Rough Order of Magnitude (ROM) in due course.

**Update:** Following a brief discussion it was acknowledged it was too early to do this, and a new action will be raised when appropriate. The action was agreed closed. **Closed**

**0483 0101:** British Gas (AM) and National Grid Distribution (CW) to investigate whether or not there are potential benefits of Modification 0483 being expanded to include consideration of LDZ Errors, Metering Errors and Offtake Errors related impacts, etc.

**Update:** This issue has been included in Engage reports and identified as a risk for consideration. **Closed**

**0483 0102:** British Gas (AM) to develop draft business rules in time for consideration at 24 February 2015 meeting.

**Update:** AM provided a presentation that explained a number of options – see 2.2 below. **Closed**

## 2.0 Consideration of Draft Business Rules

### 2.1 Performance Assurance - Update of Model considerations (presentation by ScottishPower)

AL had reissued the original presentation made to the Workgroup in June 2013, believing it to be an appropriate point to revisit the stages to determine the Scope envisaged at that time. The stages were briefly reiterated.

Engage had delivered the theory, but now the reality needed to be reviewed to assess the actual risk.

### 2.2 Performance Assurance Framework Incentive Regime (British Gas presentation)

AM gave a presentation, reiterating the background and objective of Modification 0483 (seeking to introduce a top-down cost reflective risk based incentive target and regime to incentivise Shippers to ensure they reconcile appropriate volumes of energy within their portfolios.)

AM observed that whilst the Gas Market Settlement Risk Report (prepared by Engage) met its set objectives, it did not define an appropriate energy reconciliation portfolio target or an appropriate incentive. This would mean that in the absence of any independent analysis to demonstrate an appropriate target, any target set would be arbitrary and subjective.

AM then proceeded to outline three potential options to address this perceived gap. These were considered and the advantages/disadvantages were discussed.

*Option 1 - Progress Modification 0483 methodology, based on reconciliation of energy within a Shipper's portfolio*

Taking this option would mean continuing to develop an incentives regime, based on introducing a Shipper energy reconciliation target. An arbitrary target could be set, but no incentive applied to the target, i.e. set incentive rate to zero. The PAC could be tasked with reviewing the target and setting an appropriate incentive, once the accumulation of Nexus data allows for sufficient analysis to be performed and assessed.

AM had concerns that without progressing an incentive framework, this option risks parties not participating fully within Nexus arrangements and not reconciling appropriate volumes of energy.

*Option 2 - Develop the Engage Risk Model further, to develop appropriate energy settlement targets and incentives*

The second option might be that a further contract be offered to Engage, tasking Engage with extending the settlement risk-based model, including the development of appropriate incentive arrangements.

AM believed that this would better inform the PAC and enable it to assess and recognise which performance targets and incentives, if any, are required.

*Option 3 - Appoint an Independent Expert to run/maintain the Risk Model*

As a possible third option for consideration, AM suggested the appointment of an Independent Expert (potentially Engage), to be contracted over a defined period to run and maintain the model.

The main problem might be funding. Funding options were suggested and discussed (EUK/ICOSS, User Pays, Transporters). It might be possible to use the same funding source if contracting for a single piece of work, but this might not be possible for an enduring contract - this might entail a User Pays modification. CW pointed out that if Modification 0506 was approved there was the potential for two tenders to be exercised. AL indicated that ScottishPower were not likely to be supportive of continued approaches for more funding via the trade associations. AL also noted that ScottishPower would prefer any more funding to be agreed via existing governance routes. AM thought that for an enduring scenario a tender might be necessary, but not for a one-off piece of work related to the model. EL observed that at the outset, Transporters had indicated they would support the process but would not fund it, and the cost of building many reports may need to be assessed.

AL reiterated the stages:

- Model to ascertain theoretical risks
- Use model to drive actual data/information to determine if the risks were 'real'
- Assess performance and understand if there were real risks to the market and scale of risks
- Devise targets/incentives.

CB observed that parties might change their meter reading strategies as a consequence of Nexus changes and so there may need to be an extended period of time to ensure true performance was captured.

AM reiterated that a modification was needed to use post Nexus data. Modification 0483 looks at the incentive regime; another modification is needed for model running/risk assessment. Modification 0520 is an enabling modification to remove anonymity from reports. A cohesive approach is needed to set appropriate targets to drive the right behaviours and minimise perceived risk. This approach needs to be established very quickly so that progress can be made.

The interrelationship of the current modifications was discussed. Modification 0483 was originally envisaged to cover incentives and associated invoicing, but may not be fit for purpose now; should Modification 0483 now be withdrawn, but work continue with the Engage model - complete the work and then raise a more appropriate modification? Modifications 0506 and 0506A address the Framework for the PAC. If Modification 0506A is implemented then Xoserve could manage/operate the scheme (the framework for recovering and redistribution of the money; there may be ways to address the non-payment risk). If Modification 0506 is implemented then this would have to be managed by an independent party, and Xoserve itself could be subject to the scheme. CW also clarified that Xoserve could also facilitate payments for the Modification 0483 solution. Modification 0520 was to cover reporting, identifying several reports to be linked to performance.

For Modification 0483 the choices appeared to be either carry on setting out an incentives mechanism within the Modification, or to appoint another party to identify the risks in more detail and provide evidence to the PAC giving a better view of incentives setting, etc (withdrawing Modification 0483). It was suggested that Modification 0483 could be amended to remove the parts relating to incentives, and then concentrate its focus on developing invoicing arrangements. This was briefly discussed as an option for invoicing to be included in the framework modifications.

BF asked, what was needed for the October implementation - the focus should be on making sure the regime goes live, and then the appropriate mechanisms could be developed. Timescales were discussed. Modification 0483 could continue to develop the neutrality mechanism for invoices. To provide statistical assurance the collection, storing,

processing and analysing of data would be required. It was questioned if Modification 0483 could be evolved to appoint a party and develop invoicing.

CB referred to the AUG arrangements (data, tasks) and questioned if there might be synergies; could the same party be called upon to carry out both pieces of work? This was discussed.

Asked for views, AM felt it was too early to address invoicing arrangements, believing it to be better to identify if and what incentives were required, employing a party to produce more evidence and demonstrate what is needed. The withdrawal of Modification 0483 could be considered, with the raising of a more appropriate modification once a clearer picture had been established. AL believed the academic study had been produced 'under budget' and there might be scope to draw upon the remainder of that previously agreed funding to allow the further development of the risk model.

#### *Next steps*

AM will consider whether to withdraw Modification 0483, or to amend to facilitate some sort of User Pays service. Any enduring solution would need a new modification (User Pays).

Ofgem might be approached, to consider facilitation of a further 'one-off' piece of work by an independent party.

AM indicated that he was intending to discuss with trade associations the engagement of an independent expert to develop the risk model.

BF drew attention to the current lifespan of Modification 0483, observing that it was not considered good governance for a modification to exceed 12 months. AM noted this.

### **3.0 Legal Text**

Not yet available; consideration deferred.

### **4.0 Workgroup Report**

The Workgroup Report is due to be presented at the UNC Modification Panel by 16 April 2015.

### **5.0 Diary Planning**

Further details of planned meetings are available at: [www.gasgovernance.co.uk/Diary](http://www.gasgovernance.co.uk/Diary)

Workgroup meetings will take place as follows:

<b>Time/Date</b>	<b>Venue</b>	<b>Workgroup Programme</b>
10:30, Friday 06 March 2015	Energy Networks Association (Room 4 - Note: Maximum capacity 20 persons)	Workgroups 0483, 0506 and 0520.
10:30, Tuesday 24 March 2015	Energy Networks Association (Room 4 - Note: Maximum capacity 20 persons)	Workgroups 0483, 0506 and 0520. <b>Workgroup Report 0483 is due to 16 April Panel.</b>

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### Action Table (24 February 2015)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
<b>0483 1201</b>	16/12/14	1.2	To look to provide a cost estimate in the form of a Rough Order of Magnitude (ROM) in due course.	NGD (CW) and Xoserve (EL)	<b>Closed</b>
<b>0483 0101</b>	13/01/15	2.0	To investigate whether or not there are potential benefits of Modification 0483 being expanded to include consideration of LDZ Errors, Metering Errors and Offtake Errors related impacts etc.	British Gas (AM) and National Grid Distribution (CW)	<b>Closed</b>
<b>0483 0102</b>	13/01/15	2.0	To develop draft business rules in time for consideration at 24 February 2015 meeting.	British Gas (AM)	<b>Closed</b>